



AHCCCS

***Our first care is your health care***

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

*Janet Napolitano, Governor*  
*Anthony D. Rodgers, Director*

801 East Jefferson, Phoenix AZ 85034  
PO Box 25520, Phoenix AZ 85002  
Phone 602-417-4000  
[www.azahcccs.gov](http://www.azahcccs.gov)

April 8, 2008

Stanley Aronovitch  
President and CEO  
Mercy Care Plan  
4350 E. Cotton Center Blvd., Bldg D  
Phoenix, Arizona 85040

Linda Hunt  
Chair, SCHN Board of Directors  
President, St. Joseph's Hospital & Medical Center  
4350 E. Cotton Center Blvd., Bldg D  
Phoenix, Arizona 85040

**SUBJECT: AHCCCS Request for Proposal YH09-0001**

Dear Dr. Aronovitch and Ms. Hunt:

AHCCCS is in receipt of your bid protest dated March 25, 2008, relative to the Acute Care Request for Proposal YH09-0001. In your letter, you identify three areas of concern, and request specific relief for each item. You further state that these issues "need to be addressed if the procurement process is to be fair and legal." AHCCCS does not agree that the issues addressed in your letter are "errors," nor do we concur that there is any risk of the capitation rate ranges and resulting rates failing to be actuarially sound as required by 42 C.F.R. § 438.6(c). Further, AHCCCS disagrees that the RFP and the related scoring are unfair or contrary to statute or rule. In light of amendments to the RFP and Bidders Library following your protest and for the reasons described further below your protest is denied.

The first issue you address is the reinsurance (RI) offsets, which you believe are priced too high. You have been provided separate notice that we did, indeed, post revised RI offsets on April 2, 2008 and amended the submission date for relevant financial portions of the proposals. In light of the amendments to the RFP and the data provided in the Bidders' Library, this issue is denied as moot.

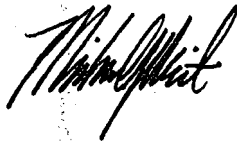
Your second issue relates to incomplete encounter data. Your requested relief is that AHCCCS employ an incompleteness factor or add to the upper bound of the rate ranges to account for uncertainty with the data. This request is denied as the encounter data is well-supported by incumbent plans' financial statements. AHCCCS has consulted with external actuaries who concur that this approach is not only reasonable, but practiced by consulting actuaries in other states.

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The third issue concerns risk adjustment for adverse selection. You have requested that AHCCCS "consider the needs of the actual patient population in scoring the capitation rate proposals and that (we) set the capitated rate range such that plans with patient populations with high needs are not penalized." We have amended the RFP in two ways. First, we have advised all offerors to bid at average costs, by GSA. Second, we will apply the acuity adjustment, scheduled for April 1, 2009, retroactive to the beginning of the contract and the awarded rates. In light to the amendments to the RFP and the data provided in the Bidders' Library, this issue is denied as moot.

In accordance with A.A.C. R9-22-604 (I) you may file an appeal about the procurement officer's decision within five (5) days from the date the decision is received.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Veit", written in a cursive style.

Michael Veit  
Contracts and Purchasing Administrator